

# Suitability Report

**Prepared For:** Mr Andrew Pastre

**Prepared By:**

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## Executive Summary

### Summary of your objectives

Your objectives can be summarised as follows:

1. Review your existing pensions to ensure they remain suitable for you in terms of your circumstances and retirement plan.
2. Ensure you have full control over your pensions in line with recent pension legislation so that you may take your pension benefits as and when you like after age 55, without penalty and in the most tax-efficient manner.
3. Ensure your beneficiaries inherit as much of your pension as possible when you pass away.
4. Consolidate your pensions into your existing SSAS where possible to ensure the solution facilitates multiple options to support the growth of your new company.
5. Ensure the solution facilitates investment in a diverse, mixed-asset investment strategy with regular reviews, in line with your attitude to risk.

More detailed information regarding each objective can be found in the **Introduction Section** of this report.

### Summary of my advice and recommendations

My recommendations to achieve your objectives are summarised below.

#### Review of Your Existing Pension Plans

Owner	Pension Type	Provider	Policy Number	Amount Invested £	Start Date	Leaving Date	Fund Value £	Transfer Value £	Valuation Date	Normal Retirement Age	Action
Andrew	Defined Benefit Pension	Severn Trent Pension Scheme	00000751142	16,824.28	14/07/03	14/03/14	n/a	150,791.27	18/10/17	65	transfer
Andrew	Small Self-Administered Scheme (SSAS)	Pastre Trading Ltd Pension Scheme - Pension Practitioner	n/a	-	01/03/17	-	45,209.27	*	05/04/18	not set	Retain, transfer into and switch underlying investments

\*If your existing SSAS investments were to stay in cash as they are, the transfer value would be whatever the current Scheme value is at that date, minus the fee for the cash transfer out at £100 + VAT.

The transfer value of your defined benefit pension, £150,791.27, is no longer guaranteed. The guarantee expired on the 18<sup>th</sup> January 2018; should you wish to proceed, a new guarantee transfer value will be required, which may come at a cost to yourself.

New Pension Recommendation

Owner	Pension Type	Provider	Investment Strategy	Transfer Lump Sum £	Existing Investment £	Normal Retirement Age
Andrew	Small Self-Administered Scheme	Pastre Trading Ltd Pension Scheme - Pension Practitioner	SG Capital Portfolio 4	150,791.27	45,209.27	60

Your existing assets are held in Cash. My recommendation for them as well as any potential transfer is SG Capital Portfolio 4 as an Investment Strategy.

You will find a detailed explanation as to how and why these recommendations meet your needs and objectives, as well as further information about any **disadvantages**, **tax implications** and the **charges** associated with my recommendations in the main body of this report.

## Introduction

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Following a recent review of your financial affairs we identified certain needs and objectives which are outlined below. The purpose of this report is to clearly explain how and why my recommendations meet these needs and objectives - whilst at the same time highlighting any potential disadvantages and risks, as well as their impact in terms of costs, charges and taxation.

You should read my report carefully to ensure it accurately reflects your circumstances, objectives and priorities. If any information is incorrect or there has been a material change to your circumstances, please let me know as soon as possible as this may affect my advice. Likewise, if you do not understand my advice or have any questions regarding my recommendations please contact me immediately.

This report can be a useful reminder, both now and in the future, of what was discussed and the thinking behind my recommendations. I would therefore recommend that you keep it in a safe place for your future reference, along with the other documentation provided.

You have been provided with a copy of our **Client Agreement** on the 6<sup>th</sup> February 2018 and **Service Agreement** on the 16<sup>th</sup> January 2018. These are important documents which outline the type of advice I can offer you, and set out the basis on which my company conducts business with you.

## Your circumstances

I have based my recommendations on the following key aspects of your current circumstances.

Name	Andrew Pastre
Date of Birth	03/05/1968
Marital Status	Married
Number of Financial Dependents	2
Occupation	Field Technician
Employment Status	Employed
Desired Retirement Age	60
Tax Status	Basic rate taxpayer
Monthly Gross Income £	3,139
Monthly Expenditure £	3,413 (joint)
Smoker	No
State of Health	Good
Up-to-Date Will	No
Power of Attorney granted?	No
UK Resident for tax?	Yes
UK Domiciled?	Yes
Do you intend to move abroad?	No

Andrew, you are 50 years old and are married to Sarah. You have two children, Matilda and Martha, both of whom are financially dependent on you. You are a non-smoker and in good health.

The purpose of our meeting was to discuss specifically your defined benefit scheme with Severn Trent, your current employer. You are in the process of consolidating your pension schemes into your new Small Self-Administered Scheme (SSAS), the Pastre Trading Ltd SSAS. You have arranged the pension switch yourself of your Zurich scheme, as it was a money purchase scheme, but you would like me to advise you on the suitability of transferring your existing defined benefit scheme into the SSAS.

I began by explaining that the starting point of conversations for discussions surrounding the transfer of defined benefit schemes must always be to retain them and thus safeguard the valuable, secure, index-linked benefits associated with such a scheme. It is important to remember that these benefits are not something that should be given up lightly as, once transferred, they cannot be restored. We must then examine any individual circumstances you may have that may make a transfer appropriate for you.

Your reasons for wishing to consider a transfer are as follows:

- You wish to consolidate all of your pensions into your existing SSAS to provide multiple options for potentially growing your new company.
- You are aware of the higher than usual transfer values being offered by defined benefit schemes at present, due to historically low gilt yields, and are keen to take advantage of this.
- Flexibility and control over your pension is a key concern of yours. You want to be able to take income from your pension as and when you wish, after age 55, to have greater scope for tax planning in the future. You would like to be able to spend more when it is needed and less at other times rather than drawing a fixed income that will rise over time. You feel you are more likely to spend more when you are younger and more active.
- A legacy for Sarah and your children is very important for you. You believe that a lump sum death benefit would be far more useful for them in the event of your death rather than the fixed spousal and dependents' benefit that your existing scheme offers.

Flexibility is your driving force and you understand and accept that, in order to achieve this, you will be giving up guaranteed benefits and will have to take some degree of risk. You are not averse to investment risk and wish to diversify as far as possible. We will therefore be looking to invest in a diverse, mixed-asset investment strategy for these funds. You have said you would value the opportunity to discuss and agree or change some elements of the investment strategy going forward so an ongoing advisory basis is the most suitable solution for you. You appreciate that, while asset class choice tends to generate most of the return, you also want the ability to use the whole of the market to draw on the skills of different fund managers and investment managers.

We also discussed the possibility of using the funds to purchase an annuity in retirement, using part or all of the value to have a secure income. In addition, we discussed taking life cover to replace the pension fund for Sarah and your family on death as well as retaining the scheme in its current form. However, as your main reason for wishing to transfer is control and flexibility, you do not wish to consider these options at this time. Whilst having not set a retirement date on your SSAS, you indicated in our conversation you may look to retire at age 60.

You may leave your employment with Severn Trent and use the SSAS for a loan-back to your new business, Pastre Trading, for a potential franchise opportunity. You considered a Self-Invested Personal Pension (SIPP) at the point you opened a SSAS.

### **Your needs and objectives and the scope of my advice**

You have specifically requested that I limit my advice to the following needs and objectives. They are listed in their order of priority to you.

1. Review your existing pensions to ensure they remain suitable for you in terms of your circumstances and retirement plan.
2. Ensure you have full control over your pensions in line with recent pension legislation so that you may take your pension benefits as and when you like after age 55, without penalty and in the most tax-efficient manner.

3. Ensure your beneficiaries inherit as much of your pension as possible when you pass away.
4. Consolidate your pensions into your existing SSAS where possible to ensure the solution facilitates multiple options to support the growth of your new company.
5. Ensure the solution facilitates investment in a diverse, mixed-asset investment strategy with regular reviews, in line with your attitude to risk.

**Please be aware that any other financial needs and objectives you may have will not be addressed as part of a limited advice service, and this could leave you exposed to the potential for financial loss in the future. Please do not hesitate to contact me if you would like my advice on any other matter now or in the future.**

## **Your financial knowledge and experience**

It is important you understand my recommendations, and the risks associated with them. We have discussed your understanding of financial services and products with reference to previous advice received and solutions implemented and established that you have better than average knowledge and experience. This is reflected in my recommendations.

Despite not currently holding any investments, following our discussions, you have a reasonable awareness of investments and I have therefore described your knowledge as better than average.

## **Overview of your existing provision**

In coming to my recommendations, I have also taken account of the following arrangements you already have in place that could, in whole or part, help meet your stated objectives.

### Savings and investment

You have no savings or investments.

### Pension

You have informed us that you are an active member of the Severn Trent Occupational Money Purchase Scheme. You have not provided us with any further information in regard values or contribution levels.

### Protection

You have no protection policies in place.

### Property, mortgage and other loan arrangements

Andrew, you have two Buy-to-Let Properties worth £65,000 and £75,000. There is a mortgage on both properties with a combined monthly cost of £770 and an amount outstanding of £120,000.

You also have a personal loan with a monthly cost of £333 and an amount outstanding of £13,221.

## Review of Your Existing Pension Plans

A summary of those pension plans I have earmarked for more detailed analysis is shown below. The fund values have been included as a current guide and will be subject to daily fluctuations.

Owner	Pension Type	Provider	Policy Number	Amount Invested £	Start Date	Leaving Date	Fund Value £	Transfer Value £	Valuation Date	Normal Retirement Age	Action
Andrew	Defined Benefit Pension	Severn Trent Pension Scheme	00000751142	16,824.28	14/07/03	14/03/14	n/a	150,791.27	-	65	transfer
Andrew	SSAS	Pastre Trading Ltd Pension Scheme - Pension Practitioner	n/a	-	01/03/17	-	45,209.27	*	05/04/18	not set (look to retire at age 60)	Retain, transfer into and switch underlying investments

\*If your existing SSAS investments were to stay in cash as they are, the transfer value would be whatever the current Scheme value is at that date, minus the fee for the cash transfer out at £100 + VAT.

The transfer value of your defined benefit pension, £150,791.27, is no longer guaranteed. The guarantee expired on the 18<sup>th</sup> January 2018; should you wish to proceed, a new guarantee transfer value will be required, which may come at a cost to yourself.

### Current investment strategy

Your Pastre Trading Ltd Pension Scheme - Pension Practitioner SSAS is currently invested as follows:

Investment	Investment Objective	Sector	Risk Rating	Annual Mgmt Charge £	Allocation %
Cash - SSAS Bank Account	n/a	Cash	Cautious	990	100
Weighted Average Charge				990	
Total					100

The monies held in cash are the proceeds of your transfer in from your Zurich pension on the 15<sup>th</sup> March 2018. Cash is not suitable for a Moderately Adventurous investor such as yourself. Cash deposits are subject to inflationary risk which means the investment will lose money over time in real terms.

### Money purchase pension benefits & features

Any benefits and features associated with your pension plan are outlined below.

Pension Type	Provider	Flexible Retirement Options	Investment Choice	Pension Contribution Insurance	Tax-free Cash in Excess of 25%	Guaranteed Retirement Income	Death Benefits	Death Benefit Nomination
SSAS	Pastre Trading Ltd Pension Scheme - Pension Practitioner	Full range of options	Cash	Not included	Not applicable	Not applicable	Dependents drawdown or payment of lump sum death benefit	Sarah Pastre 100%

There is no Terminal Bonus or Market Value Adjustment on the plan.



## Summary of plan charges

The table below provides an overview of the recurring annual charges that currently apply to the plan.

Pension Type	Provider	Product Charge	Platform Service Charge	Adviser Service Charge	Investment Management Charge	Transaction Charges	Other Charges	Aggregated Total Charge	
SSAS	Pastre Trading Ltd Pension Scheme - Pension Practitioner	£990	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	£0.00

The AMC is a fee of £990 per annum payable in advance. It increases annually on the commencement date of the policy in line with CPI. As the transfer-in from Zurich came in on the 15<sup>th</sup> March 2018, the Annual Administration fee was charged for March 2017 to March 2018, but not 2018 to 2019. The next Annual Fee is due on the 1<sup>st</sup> March 2019.

Any additional fees are chargeable on an as and when basis, i.e. benefits related fees will only be applied as and when the member begins to access his benefits. Property will be if the member chose to purchase a commercial property. If the Scheme remains as it is, they will only charge the applicable Annual Administration Fee. If the member were to invest in regulated investments, they may charge a small one-off transaction fee (as per the fee schedule) but they do not charge any additional annual fees for holding that in the Scheme.

The annual aggregated total charge in monetary terms is based on the current fund value of the plan plus any additional contributions being invested over the course of the next twelve months. It provides an indication of the charges that would be deducted from the plan during the year if there was no investment growth. In reality, the charge in monetary terms will be higher or lower than shown depending on the performance of the underlying investment.

## Defined benefit pension benefits

The estimated benefits you could receive from your defined benefits pension scheme at age 65 is summarised below.

Scheme	Full Pension Only Option	Tax-free Lump Sum (PCLS) & Reduced Annual Pension Option		Death Benefits / Spouse's Pension
		PCLS	Annual Pension	
Severn Trent Pension Scheme	£10,110.46	Not given	Not given	Death before retirement: 50% of member's pension per annum to spouse. Return of member's contributions with interest £16,824.28 if no spouse's pension payable. Children's pension payable.  Death after retirement: 50% of member's pension per annum to spouse after commutation for any tax-free cash taken. Pension guaranteed for 5 years. If death occurs within 5 years of retirement, a lump sum will be paid of the value of the pension payments remaining of the five-year period. Children's pension payable.

**The benefits illustrated above do not take into account any lifetime allowance tax charge that could be payable when fully crystallising your pension benefits.**

Given your current level of pension benefits, it is unlikely that you would be subject to such a charge.

Your pension benefits are made up of several separate elements, or slices of pension that are treated differently by the scheme or have different legislation governing their behaviour. These different elements are summarised below. The revaluation rate is the rate at which your benefits will increase before you retire. The escalation rate shows how much your income could increase by once in payment.

Scheme Element	Amount at Date of Leaving £	Revaluation Rate % to NRA	Escalation Rate % After NRA (& future assumption)
Post 97 Rights	6,431.66	RPI Max 5%. (from 05/03/2018 RPI is assumed to be 2.50%)	RPI Max 5%

## Recommendation

I have recommended that you transfer the Severn Trent Pension Scheme Defined Benefit Pension 00000751142 for the following reasons:

- You require the flexibility to control and tailor the frequency and amount of income you receive from your pension fund to suit your circumstances, needs and tax position, as opposed to the fixed (albeit guaranteed) income that your existing defined benefits pension would provide. Unfortunately, this scheme does not offer the facility to draw down benefits directly from your pension fund.
- You are prepared to accept more risk in return for greater flexibility over when and how benefits are withdrawn from your pension fund.
- You value the 'return of fund' lump sum death benefit that would be available via a SSAS contract above the fixed spousal or dependants' pension and return of contributions death benefits that your Severn Trent Pension Scheme pension offers.
- It is unlikely that the Critical Yield\* required to match the benefits that could be provided by your existing defined benefits pension (i.e. 10.4% per annum to age 65) can be achieved consistently year on year, even with a Moderately Adventurous Investment Strategy.
- Please note, the Critical Yield assumes that you would buy an annuity at your Normal Retirement Date (65) - although you have said that you have no desire to secure a guaranteed income. Please refer to the Defined Benefit Pension Transfer Analysis section in the Appendix of this report for further information.
- You would like to look at the potential for transfer now as you may leave your employment with Severn Trent and use the SSAS for a loan-back to your new business, Pastre Trading, for a potential franchise opportunity.

\*The Critical Yield is the estimated annual investment return that the recommended alternative plan would need to achieve in order to purchase an annuity providing the same level of income as that which you could receive from your existing defined benefit pension at your proposed retirement age.

I have recommended that you retain and switch the underlying investments in the Pastre Trading Ltd Pension Scheme - Pension Practioner SSAS for the following reasons:

- The recommended plan provides all the flexibility you will require to draw benefits from your pension fund in a manner to suit your needs, circumstances and tax position.
- The plan continues to reflect your circumstances and objectives.
- Cash deposits are subject to inflationary risk which means the investment will lose money over time in real terms.
- You are looking to target capital growth for the whole of the monies held in the SSAS.

## Disadvantages & tax implications

You will find further information regarding the taxation of pensions in the Appendix of this report. However, any specific tax implications, as well as any disadvantages associated with the above recommendations are highlighted below.

- The proceeds (CETV) of your Severn Trent pension and the monies currently held in cash will now be exposed to investment risk.
- Your existing defined benefit scheme does not offer a cancellation period once the forms to transfer have been submitted.
- You have said that you value the flexibility to control and tailor the frequency and amount of income you receive from your pension funds to suit your circumstances, needs and tax position, rather than the fixed (albeit secure) income that your existing defined benefit pension would provide.
- The CETV of your defined benefit scheme is not guaranteed as the deadline expired on the 18th January 2018. Therefore, the amount to be transferred may be higher or lower than the amount stated in this report. You have said that you have understood this and have asked me to proceed regardless.
- Charges will erode your investment returns over time. However, it is worth bearing in mind that you will always incur some form of charge when investing in asset-backed investments.

## Further information

You will find further information regarding the new pension plan I have recommended in the **New Pension Recommendation** section that follows. I would also refer you to the Appendix of this report for a comparison of your existing and the recommended alternative plans.

## New Pension Recommendation

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My recommendation is summarised below.

Owner	Pension Type	Provider	Transfer Lump Sum £	Existing Funds £	Investment Strategy	Normal Retirement Age
Andrew	Existing Small Self-Administered Scheme	Pastre Trading Ltd Pension Scheme - Pension Practitioner	150,791.27	£45,209.27	SG Capital Portfolio 4	60

### Why has this pension been recommended?

I have recommended a Small Self-administered Scheme for the following reasons:

- A SSAS will allow you to retain much greater control over your pension benefits than your existing defined benefit scheme.
- The investments held within the pension fund will generally grow free of Income Tax and there is no Capital Gains Tax liability when an asset is sold.
- Lump sum benefits paid on death will normally be free from Inheritance Tax.
- It provides significant opportunities for succession planning as it allows illiquid company assets, such as property or unquoted shares, to be passed down through the generations without them ever falling into your estate for Inheritance Tax purposes.
- On retirement, members can take up to 25% of their fund a tax-free lump sum.
- You can offset the scheme administration fees against profits as a business expense, and reclaim the VAT.
- You can pool your pension assets within the SSAS, which will provide you with much greater buying power than the individual pension plans.
- It provides you with multiple options to support the growth of your company. This level of flexibility would not be available through multiple SIPP's and definitely not if the funds remained spread across all the original pension schemes.
- You will be able to use the pension fund as a source of loan capital to the company to fund the expansion of your business thereby minimising the need for any bank loan. The interest paid will continue to build funds into the scheme for the benefit of the members.
- You will be able to use the pension fund as a source of equity capital to fund the expansion of your business thereby avoiding the need to surrender control to external interests.
- You can use the pension fund to purchase the company's premises and then lease them back to the company should you wish to.
- The company will receive Corporation Tax relief on any employer contributions.
- Each member will receive standard tax relief at their marginal rate on their personal contributions.
- You can use the self-investment facility to help the company's development.
- It will provide the trustees with a much greater say in the way in which your pension payments are invested.

Whilst I have assessed the suitability of a SSAS, I have not assessed the suitability of your existing plan, nor am I making a recommendation on a provider. Below is information only in regard to your existing provider.

#### Pension Practitioner

The Practitioners Partnership LP is a limited partnership, whose partners operate in the United Kingdom, Gibraltar and Spain.

They act as a tax practitioner to fulfil tax filing, scheme compliance, pension administration for business owners and family offices. They provide guidance and assistance to financial services firms and new market entrants engaged in financial technology on best practice approach for pension platforms integration with local regulatory requirements.

The Partnership undertakes through Pension Practitioner specialist small self-administered scheme administration, consultancy and governance. In addition, it undertakes HMRC tax compliance and Pensions Regulatory assistance for schemes of more than two members. Where they are appointed as a scheme practitioner, trustees can if they wish request them to act as the Registered Administrator. This is fulfilled through Registered Administrator Limited.

They have in excess of 20 years pensions experience and are both qualified and insured for the work they undertake.

- You particularly wanted to use this SSAS as it is your existing SSAS and has been established since March 2017.

## Summary of plan charges

### Initial one-off charges

Ownership	Pension Type	Provider	Product Charge	Platform Service Charge	Adviser Service Charge	Investment Management Charge	Transaction Charges	Other Charges	Aggregated Total Initial Charge in Year 1
Andrew	Existing Small Self-administered Scheme	Pastre Trading Ltd Pension Scheme - Pension Practitioner	£420 (£350+ VAT transfer in fee)	0%	2% of the transfer value	0%	£42 (£35 + VAT transaction fee for each transaction. Cash to SG Capital and transfer in to SG Capital if done separately).	0%	£3,519.83

### Recurring annual charges

Ownership	Pension Type	Provider	Product Charge	Platform Service Charge	Adviser Service Charge	Investment Management Charge	Transaction Charges	Other Charges	Aggregated Total Recurring Charge in Year 1	
Andrew	Existing Small Self-administered Scheme	Pastre Trading Ltd Pension Scheme - Pension Practitioner	£990 SSAS and £150* SG Capital	0.0%	0.75%**	20%**	0.0%****	0.0%	0%	£2,610.00

\* This will increase to £240 per annum once you start drawing benefits from the plan.

\*\* The investment charge is a performance-based fee SG Capital Management will levy on only the profits your investment returns. It has not been included in the aggregated total charge figure. SG Capital Management will also levy a transactional cost for the underlying asset purchases and sales charged at 0.75% of the value of the transaction.

\*\*\*The 0.75% Adviser Service Charge will be on all monies held in the SSAS.

The AMC is a fee of £990 per annum payable in advance. It increases annually on the commencement date of the policy in line with CPI. As the transfer-in from Zurich came in on the 15<sup>th</sup> March 2018, the Annual Administration fee was charged for March 2017 to March 2018, but not 2018 to 2019. The next Annual Fee is due on the 1<sup>st</sup> March 2019.

\*\*\*\*Any additional fees are chargeable on an as and when basis, i.e. benefits related fees will only be applied as and when the member begins to access his benefits. Property will be if the member chose to purchase a commercial property. If the Scheme remains as it is, they will only charge the applicable Annual Administration Fee. If the member were to invest in regulated investments, they may charge a small one-off transaction fee (as per the fee schedule) but they do not charge any additional annual fees for holding that in the Scheme.

Both the *aggregated total initial charge* and the *aggregated total recurring charge* shown in monetary terms are based on the total amount being invested into the recommended plan in the first year of investment.

The *aggregated total recurring charge* shown in monetary terms assumes any initial charges are deducted upfront. It provides an indication of the charges that would be deducted from the plan during the first year of investment if there was no investment growth. In reality, this charge will be higher or lower than shown depending on the performance of the underlying investment. **Your personal illustration contains further information regarding the effect the overall costs and charges will have your investment returns.**

## Plan features and benefits

My recommendations in respect to the optional features and benefits that are available via this plan can be summarised as follows.

Ownership	Pension Type	Provider	Pension Contribution Insurance Benefit	Indexation
Andrew	Existing Small Self-administered Scheme	Pastre Trading Ltd Pension Scheme - Pension Practitioner	Not recommended	Not recommended

I refer you to the Key Features Document for further information regarding these features and benefits.

## Income in retirement

It is important your pension is reviewed regularly to ensure it remains on course to meet your income requirements in retirement. The accompanying illustration provides an indication of the benefits you could receive from this pension - clearly there are no guarantees and the figures are all projections based on estimates and assumptions. You will also be entitled to a State Pension at State Pension Age. You can obtain a personal forecast of your likely State Pension entitlement from the *GOV.UK* website - <https://www.gov.uk/state-pension-statement>.

## Expression of wish

You should also complete an Expression of Wish / Nomination of Beneficiaries form. This will ensure that the pension administrator considers your wishes and your pension benefits are paid out to your intended beneficiaries on your death. You can change the nominated beneficiaries at any time in the future.

## Disadvantages & tax implications

You will find further information regarding the taxation of pensions in the Appendix of this report. However, any specific tax implications, as well as any potential disadvantages associated with the solution I have recommended are outlined below.

- The proceeds of your Severn Trent CETV will now be exposed to investment charges; charges will erode investment returns over time. However, it is worth bearing in mind that there is always some form of charge associated with investing in asset-backed investments.
- You will be subject to an initial charge on transferring into the SSAS and transactional charges for investing in a SG Capital portfolio.

## Cancellation notice

You have a legal right to change your mind and cancel your plan. Once your plan is set up you will be sent a cancellation notice. You have 30 days in which you can review and consider your options. You should check the provider literature to confirm the date that this period commences and any charges that may apply following cancellation. If your investment falls in value before your cancellation notice is received, an amount equal to the fall in value will be deducted.

The cancellation notice includes a provision that the current provider is not obliged to take the plan back.

Your existing defined benefit scheme does not offer a cancellation period once the forms to transfer have been submitted. I will therefore hold the request for the Cash Equivalent Transfer Value for a period of 14 days just in case you decide to change your mind. After this date the request will be submitted, and it is unlikely that this will be able to be reversed.

## **Alternative solutions**

I considered the following alternative solutions and options but discounted them for the reasons outlined below.

### SIPP

- You have no plans to use your pension fund to purchase a commercial property.
- You have no need for the additional features of a SIPP.
- You considered and dismissed a SIPP over a SSAS yourself in March 2017.
- A SSAS provides you with multiple options to support the growth of your company. This level of flexibility would not be available through a SIPP.

### Your employer's pension scheme

- You wish to retain full control over these pension benefits.
- You wish to keep these pension benefits separate to the ones you will accrue within your current employer's pension scheme.
- You may leave active employment with Severn Trent in the near future.

### Stakeholder pension plan

A Stakeholder pension is a type of personal pension but it must meet some minimum standards set by the government, e.g. management charges cannot be more than 1.50% of the fund's value for the first 10 years and 1% after that; you must be able to start and stop payments when you want; switch providers without being charged; they have to meet certain security standards, e.g. have independent trustees and auditors. I have discounted a Stakeholder pension as they do not offer a sufficiently wide selection of funds to be able to accommodate my recommended portfolio. Furthermore, my recommended contract offers the ability to stop and start payments and free switching as per Stakeholder requirements.



## Investment Strategy

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### Attitude to risk and capacity for loss

Understanding your attitude to risk and capacity for loss is a key part of the advice process. It is fundamental to the construction of a suitable investment strategy and ensures your investments are managed in line with your expectations. Ultimately the more risk you are willing to take, the higher the potential returns but also the greater the chance of loss. On the other hand, lower risk investments offer greater security but lower potential returns.

As well as assessing your willingness to accept risk i.e. your attitude to risk, I have also considered your need and ability to accept a loss on your investments i.e. your capacity for loss. To assist this process you have completed the O&M Risk Profiling Questionnaire. The questionnaire has been designed to assess your knowledge, experience, attitude to risk and capacity for loss.

You kindly completed the risk profiling questionnaire I provided, and this returned the result of Moderately Adventurous. We discussed this, and we have agreed to use a Moderately Adventurous investment strategy for the SG Capital Portfolio recommendation. It is quite highly based in equities and has therefore been given an Adventurous benchmark for comparison. I have explained the nature and characteristics of this type of investment strategy - you are happy to proceed on this basis and I believe this is an appropriate investment strategy for you.

#### Andrew's Attitude to Risk

Objective	Attitude to Risk	Description
Saving for retirement	Moderately Adventurous	Typically, a moderately adventurous investor is primarily focused on pursuing significant portfolio growth over a longer investment term, and is usually an experienced equity investor. Such investors can tolerate market downturns and volatility in exchange for the potential of achieving greater long-term growth. Any funds set aside for such an investment are unlikely to be needed for 10 years or more. Such investment portfolios have a greater exposure to a variety of asset classes and will primarily invest in UK and global equities.

#### Your Capacity for Loss

Your **capacity for loss** can be summarised as follows:

You will rely on this pension in retirement to provide you with an income. That said, you are over five years from the age at which you can consider taking benefits from the pension and 10 years from your anticipated retirement age, so there is time for any short-term potential market volatility to level out. You also have the monies although the fund value is unknown in your current employers' scheme. For that reason, you could reasonably afford to see these recommended investment funds reduce in value slightly before it would have a significant impact on your lifestyle. I am comfortable therefore that you have sufficient capacity for loss in respect of my recommendation in this report.

I have run a Cashflow modelling scenario based on the CETV and taking the same income obtainable from the scheme at age 65, using a Moderately Adventurous attitude to risk. Based on these assumptions, and relevant growth assumptions, the fund will not be exhausted.

**Please contact me immediately if you do not understand the potential risks associated with the agreed risk profile or you do not believe the above accurately reflects your attitude to risk and capacity for loss as this may affect my advice.**

## Recommended investment strategy

In addition to your attitude to risk and capacity for loss, I have also considered your investment objectives as well as your knowledge and experience, and the length of time you wish to invest for. Having taken account of all these factors, I have recommended the following:

### SG Capital Management Portfolio 4

Investment	Investment Objective	Sector	Risk Rating	Ongoing Charges Fee %	Allocation %
SG Capital Management Portfolio 4	The portfolio aims to achieve capital growth over the medium to long term whilst taking a moderately adventurous approach to risk. The portfolio will be continuously monitored. Instead of routine rebalancing, the portfolio would be traded in response to changing market conditions and movements on individual assets. The investment team are able to react quickly and flexibly to evolving circumstances.	Various	Moderately Adventurous	20*	100
Weighted Average Charge				20*	
Total					100

\* The investment charge is a performance-based fee SG Capital Management will levy on only the profits your investment returns. It has not been included in the aggregated total charge figure. SG Capital Management will also levy a cost for the underlying asset purchases and sales charged at 0.75% per transaction.

I have recommended the above for the following reasons:

- The recommended portfolio has performed well when compared to its benchmark having made cumulative returns of 121.8 % over a five-year period, compared to 72.2% for the FTSE UK Private Investor Global Growth Index. The investment charges are competitive for a portfolio of bespoke, predominantly actively managed funds. Despite the portfolio being benchmarked to a Global Growth Index, this is only because the asset allocation is between that of Moderately Adventurous and Adventurous. The portfolio has been designed with Passive Investment Moderate investors in mind and I am comfortable that this investment is suitable for you as a Moderately Adventurous investor.
- The portfolio consists of predominantly actively managed funds as you wished to take an active approach to investing in an attempt to outperform the market. You understand that actively managed funds are more costly than passive funds but are happy to incur the additional costs to target the improved growth that the best actively managed funds can offer.
- You do not wish to be involved in the day-to-day management of your investments. You are happy to delegate routine investment decisions to an investment manager and allow them to make changes to your portfolio without having to seek your consent.
- This is an "off-the-shelf" discretionary managed portfolio service that has been designed to meet your risk profile and investment objectives. The portfolio is managed by a dedicated team of investment professionals and is regularly reviewed and updated to reflect changes in market conditions.

## Important Information

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### Reviews and ongoing service

Your circumstances may change, so it is important we regularly review your financial affairs to ensure you remain on target to achieve your objectives. For example, the asset allocation of an investment portfolio may change over time and it is important that we monitor this, in order that we may rebalance the portfolio if required, in order to ensure that the funds remain appropriate to your attitude to risk. I provide a comprehensive client service proposition which means I will be available to see you face to face to review your financial situation at least twice a year. I am also available, along with your Client Manager Gary Bridge, for contact via e-mail or telephone at any time. The current fees for this service are 0.75% per annum of the assets we manage on your behalf. I would refer you to our Service Agreement for further information regarding our service proposition.

### Remuneration

We have discussed how I can be remunerated for my advice and services. In respect to the recommendations contained within this report, we have agreed that I will be remunerated as follows. **Where the annual fee is based on a percentage it will increase or decrease in line with the value of the investment.**

Type of Advice	Initial Method of Remuneration	Initial		Annual Method of Remuneration	Annual	
		% of Fund	£		% of Fund	£
Pension Advice	Adviser Charging	2% of the transfer value	3,015.83	Adviser Charging	0.75*	1,470.00

\*The 0.75% on-going servicing charge is for the transfer in value and the existing value of the SSAS.

### Client classification

It is a regulatory requirement that I categorise all clients to identify the level of regulatory protection they are entitled to. Retail Clients are afforded the highest level of regulatory protection available. You have been classified as a Retail Client.

### Cash contingency fund and affordability

You should retain sufficient cash reserves to meet any short-term expenditure and act as an emergency fund. I would typically recommend that the equivalent of three to six months' net income is kept within an instant access deposit account as a bare minimum.

### Non-disclosure

My recommendations are based on the information provided. If you do not disclose all relevant information my advice may not take account of all your needs and requirements and could ultimately have been different. **I cannot accept responsibility for any non-disclosed information which could have affected my advice**, nor can I accept liability for any loss you may suffer due to the non-disclosure of any material facts which have not been brought to my attention.

## Supporting information

You should also read the following documentation in conjunction with this report.

- Defined Benefit Pension Transfer Analysis (TVAS) report.
- Portfolio Fact Sheet for SG Capital Portfolio 4.
- Cashflow model report.

## Your other needs and shortfalls

Failure to address all of your financial needs and shortfalls could leave you exposed. I believe there are other aspects of your financial affairs that warrant further investigation. However, they have not been specifically addressed in this report for the reasons outlined below.

### Wills and Lasting Power of Attorney

I strongly recommend that you write a Will as a matter of urgency to ensure that as much as possible of your estate goes to those intended. Should you die without having made a Will you will be deemed to have died "intestate" and your estate will be distributed in accordance with the intestacy rules. This could mean that your assets do not pass to the people whom you would want to benefit.

## Next steps

I will contact you to arrange a meeting to discuss the recommendations contained in this report. If you are happy to proceed, I will ask that you sign the necessary application forms and will then arrange the transfer and switch of the underlying investments according to my recommendations.

## Risk Warnings

There are risks associated with the recommendations made in this report, and I would draw your attention to the following risk warnings.

Subject of Advice	Risk Warnings
General	<ul style="list-style-type: none"> <li>The provider's illustration contains a full explanation of the charges and how they affect the plan.</li> <li>All statements concerning the tax treatment of products and their benefits are based on my understanding of current tax law and HMRC practice. Levels and bases of tax relief are subject to change, which may affect the suitability of the recommended products and could mean that information on taxation contained in this report becomes inaccurate.</li> <li>The companies whose products I have recommended are considered secure and able to meet their obligations to customers. My recommendations are based on published information that is provided by ratings agencies. I cannot assume responsibility for the accuracy and completeness of this information or accept any losses if circumstances arise due to the failure of any company whose products I have recommended.</li> </ul>
Investment-related Recommendations	<ul style="list-style-type: none"> <li>Past performance is used as a guide only. It is no guarantee of future returns.</li> <li>Your investment can go up and down and you may not get back the full amount invested.</li> <li>Other than deposit-based savings, investments should be viewed over the medium to long term - a period to be 5 plus years.</li> <li>If you transfer or surrender the plan, especially during the early years, the fund value may be less than you have invested.</li> <li>The investment growth rates used by companies in their illustrations are not minimums or maximums and offer no form of guarantee. The returns achieved may be less than those illustrated.</li> <li>Certain asset classes and funds will perform better than others and the asset allocation will change unless it is regularly rebalanced.</li> <li>The capital value of your investment will be eroded if you make withdrawals in excess of the net growth of the underlying investments.</li> <li>Inflation will reduce the real value of your investment and any income over time.</li> <li>It may take some time to realise the value of certain underlying assets, such as funds that invest in property and hedge funds.</li> <li>An investment in corporate bonds is generally less secure than an investment in Government bonds due to the greater possibility of default.</li> <li>Currency exchange rates may cause your investments to fall as well as rise in value.</li> <li>Some investment fund choices can be subject to a deferral period for withdrawals, which can also include full suspension of trading in these funds. This typically, but not exclusively, relates to property funds which may be caused by the illiquidity of the underlying assets.</li> </ul>
Pension Recommendations	<ul style="list-style-type: none"> <li>The benefits you receive may be lower than illustrated if: <ul style="list-style-type: none"> <li>You stop or reduce your contributions.</li> <li>Investment performance is lower than illustrated.</li> <li>You take your benefits earlier than your chosen retirement date.</li> <li>Tax rules change.</li> <li>Charges increase above those illustrated.</li> </ul> </li> <li><b>Funds within a pension are not always exempt from inheritance tax.</b> If HMRC believes an individual has deliberately used their pension to shelter money from inheritance tax they could still include the pension fund within the individual's estate for inheritance tax purposes. The setup of the pension scheme, how any benefits are paid on death and certain things that may have happened in the 2 years prior to the individual's death can also result in the pension fund becoming assessable to inheritance tax.</li> </ul>
SSAS	<ul style="list-style-type: none"> <li>The SSAS product and the services provided in relation to it are <b>not regulated by the Financial Conduct Authority (FCA)</b>. Therefore, you may not have recourse to the Financial Ombudsman Service (FOS) in the event that you have a complaint about the recommended provider, or the FCA if you are concerned about the conduct of the SSAS administrator, or cover by the Financial Services Compensation Scheme (FSCS) in the event of the failure of the SSAS administrator.</li> <li>Although the SSAS product and its administration is not covered by the FSCS, the investments held within the SSAS, if they are regulated investments or deposits, may be covered by the compensation scheme. This will depend on the specific deposit or investment held by the SSAS.</li> </ul>

	<ul style="list-style-type: none"> <li>• The trustees have certain responsibilities that they must fulfil. They must also be able to demonstrate compliance with pensions legislation and good practice scheme governance at all times.</li> <li>• <b>Membership of a SSAS requires a much higher degree of involvement in the administration of the scheme than a typical pension plan.</b> Considerable knowledge and experience of the relevant legislation and HMRC practice is often needed to ensure that no undue difficulties are encountered.</li> <li>• It is a requirement of legislation that a SSAS is established under trust if it is to be registered with HMRC and benefit from all the tax advantages available. The initial and ongoing reporting requirements associated with a SSAS can be relatively time consuming and complex. HMRC can impose fines for failing to adhere to its requirements.</li> </ul>
Defined Benefit Pension Transfer	<ul style="list-style-type: none"> <li>• The recommendations in this report are based on the information provided by the scheme administrator. I cannot be held responsible for any errors or omissions contained in this information.</li> <li>• In order to make a comparison between the benefits you could receive from the existing scheme and the recommended alternative it has been necessary to make certain assumptions about future growth and annuity rates. These rates are prescribed by the FCA. However, it is important to note that these are assumptions and they may not reflect future outcomes.</li> <li>• The TVAS report does not on its own show whether or not transferring your defined benefit pension is advisable, as that also depends on many other factors, such as your attitude to risk, your personal circumstances and your objectives. It does, however, provide an indication of the likelihood of being able to match or exceed the benefits provided by your existing scheme.</li> <li>• There is a high degree of uncertainty as to the final level of benefit you could receive from a money purchase pension given that you are relying on future investment performance as opposed to guaranteed annual scheme revaluation (increases). Once you reach retirement, the product you use to secure your retirement income may not necessarily offer the same structure or payment increase options when compared with your current defined benefit scheme.</li> <li>• Where an individual transfers funds from one registered pensions scheme to another, and dies within two years of the transfer then their executors need to report this. HMRC will then investigate and if they consider that the individual knew they had a short life expectancy, they may decide that the amount transferred is assessable to Inheritance Tax.</li> <li>• If the transfer value of your defined benefit pension is not classed as a Cash Equivalent Transfer Value and is not permitted, any protection you may be entitled to will be lost, and your lifetime allowance will revert to the current lower level.</li> <li>• Your fund will not be invested until the transfer has taken place and you could materially suffer as a result of upward movements in the investment markets.</li> </ul>

## Declaration

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### Adviser Declaration

I confirm I am authorised to provide advice on all areas addressed in this report. I believe this report is a clear and accurate reflection of your circumstances, objectives and priorities. However, if you do not agree or you wish to discuss any of the issues raised in more detail please do not hesitate to contact me.

Signature \_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_

**Thomas Biggar**

### Client Declaration

I have read this report and received all the accompanying documentation outlined in the Important Information section. I accept that the advice is based on the information I have provided and confirm that the recommendations contained within this report are a fair reflection of my circumstances, objectives and priorities.

Signature \_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_

**Andrew Pastre**

# APPENDIX

## Defined Benefit Pension Transfer Analysis

It is essential to compare the mechanics, features and benefits of your existing defined benefits pension and the recommended alternative plan. A Transfer Value Analysis (TVAS) report has been prepared using information provided by the scheme administrators to assist this process. The analysis does not, on its own, show whether or not transferring your pension benefits is advisable, as that also depends on many other factors, such as your attitude to risk, your personal circumstances and your objectives. It does, however, give an indication of the likelihood of being able to match or exceed the benefits provided by your existing scheme with a transfer to an alternative plan. The key aspects of this analysis are outlined below.

### Comparison of estimated pension benefits

The tables below compare the estimated benefits you could receive from your existing defined benefit pension, with those that you could receive if you were to transfer the Cash Equivalent Transfer Value to the recommended alternative plan and start drawing benefits from age 65.

#### Income only option

The estimated benefits you could receive from your **existing defined benefits pension** at age 65 are outlined below:

Scheme	Annual Income	Tax-free Lump Sum
Severn Trent Pension Scheme	£10,110.46	N/A

The estimated benefits you could receive from the **recommended alternative plan** are outlined below:

Original Scheme	Personal Pension on transfer no tax-free cash taken (per annum) CETV by 5% to age 65
Severn Trent Pension Scheme	£11,912.40

These figures are based on approximate yield if you were to take income.

**(CETV compounded by 5% over 15 years = £313,484.22 x 3.8%\* = £11,912.40 pension per annum)**

\*This is the yield our portfolio is designed to produce year on year.



Tax-free cash and reduced income option

The estimated benefits you could receive from your **existing defined benefits pension** are outlined below:

Scheme	Annual Income	Tax-free Lump Sum
Severn Trent Pension Scheme	Not given	Not given

The estimated benefits you could receive from the **recommended alternative plan** are outlined below:

Original Scheme	Tax-free cash (25% of CETV)	Personal Pension after transfer to scheme NRD full tax-free cash taken (per annum)
Severn Trent Pension Scheme	£78,371.06	£8,934.30

These figures are based on approximate yield if you were to take income.

**(CETV compounded by 5% over 15 years = £313,484.22 / 4 = £78,371.06 tax-free cash)**

**(£235,113.16 remaining x 3.8%\* = £8,934.30 pension per annum)**

\*This is the yield our portfolio is designed to produce year on year.

**Your existing defined benefits pension and any annuity provided by the recommended alternative plan would provide a guaranteed income for life. However, any income provided via drawdown is not guaranteed and would be dependent on future investment returns.**

**Critical Yield**

The Critical Yield is the estimated annual investment return that the recommended alternative plan would need to achieve in order to purchase an annuity providing the same level of income as that which you could receive from your existing defined benefit pension at the scheme's normal retirement age of 65.

Scheme	Recommended Alternative - Critical Yield %	
	Income Option Only	Tax-free Cash & Reduced Income Option
Severn Trent Pension Scheme	10.4%	Not quoted

**Fund required to purchase comparable annuity**

The table below shows the annuities available revaluing your CETV to age 65 and assuming you are now age 65.

Scheme	Fund Required to Purchase Comparable Annuity	
	Income Option Only	Tax-free Cash & Reduced Income Option
Personal Pension	£6,526.20	£78,371.06 and £4,926.12

The annuity quotes are from IRESS Exchange on the 15<sup>th</sup> May 2018, have RPI escalation in payment, a spouse's pension of 50% and a five-year guarantee period.

It is worth bearing in mind that certain assumptions have had to be made about future annuity rates to derive this figure; and the fund required would be higher if, at your proposed retirement age, the annuity rates were lower than those assumed, and vice versa.

### Tax-free lump sum

Below I have compared the estimated tax-free lump sum (Pension Commencement Lump Sum) you could receive from your existing defined benefit pension and the recommended alternative plan using your current CETV value revalued up to 65.

	Existing Defined Benefit Scheme	Recommended Alternative (25% of CETV at 65)
Pension Commencement Lump Sum (PCLS)	Not given	£78,371.06

Where the scheme PCLS is greater than normally allowed under a personal arrangement, the higher amount may still be available where protection is in place subject to various conditions being met.

### Comparison of death benefits

The benefits payable on death from your existing defined benefit pension scheme and the recommended alternative plan will depend on when you die. A comparison of the benefits that could be paid out by your existing defined benefit pension and the recommended alternative plan at various stages is summarised below.

#### Existing Defined Benefit pension scheme

Death Before Retirement		Death After Retirement	
Lump Sum	Spouse's / Dependant's Pension	Lump Sum	Spouse's / Dependant's Pension
Return of member's contributions with interest £16,824.28 if no spouse's pension payable.	50% of member's pension per annum to spouse. Children's pension payable.	If death occurs within 5 years of retirement, a lump sum will be paid of the value of the pension payments remaining of the five-year period.	50% of member's pension per annum to spouse after commutation for any tax-free cash taken. Pension guaranteed for 5 years. Children's pension payable.

#### Recommended alternative

Death Before Age 75	Death After Age 75
Full return of fund to any beneficiary free of taxation (assuming no annuity has been purchased) less any applicable LTA charge *. * Other options are also available.	Full return of fund less any applicable LTA charge. Beneficiaries pay tax at their marginal rate of income tax on both lump sum and income withdrawals received *. * Other options are also available.

#### Capitalised value of benefits payable on death before retirement

The table below compares the capitalised value of the benefits that could be provided by the existing defined benefit scheme and the recommended alternative pension plan **at the date of transfer**.

Assumed Death	Existing Scheme – Severn Trent Pension Scheme	Personal Pension
14/05/2018	£416,796.07	£147,775.44

## Important notes about the TVAS report

The figures highlighted above are based on various assumptions as prescribed by the industry regulator, the Financial Conduct Authority (FCA), and are subject to regular review. The assumptions cover how your pension fund may grow, how your pension fund is converted into an annual pension and future inflation rates. I would refer you to the full TVAS report for detailed information about these assumptions.

It is a FCA requirement that a TVAS report is produced to compare the benefits that could be provided by your existing defined benefit scheme and the proposed money purchase pension plan, **assuming that the eventual benefits are taken in the same way**. However, following the introduction of the new *Pension Freedom* rules individuals may prefer to take their pension benefits more flexibly and not always in exactly the same format as that offered by the defined benefit scheme. However, the TVAS report does not take account of an individual's lifestyle goals, and still assumes that they will eventually buy an annuity which will mirror the benefits offered by the scheme; when in fact the majority of people looking to transfer a defined benefit pension are doing so specifically because they want a different shape to how their pension benefits are taken.

## Attitude to Risk Profiles

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I have included below a description of all attitude to risk profiles used by my company so you can make a comparison with your own risk profile.

Attitude to Risk	Description
Cautious	Typically, a cautious investor is an individual who is cautious in their investment choices or a first-time investor. Their investment objective will primarily focus on portfolio stability and preservation of capital as they may need the money from their investments within the next five years. They may also have a medium investment time horizon and be seeking a growth potential that can compete with inflation concerns. Primarily, any such portfolio will consist largely of investments into cash and bonds.
Moderately Cautious	Typically, a moderately cautious investor is willing and able to accept some risk and investment volatility. Their investment portfolio is primarily focused on pursuing a modest level of growth with a reduced exposure to potential losses and subsequent volatility. Their portfolio will primarily include investments into cash and bonds with some allocation in equities.
Moderate	Typically, a moderate investor is looking for an equal balance between portfolio stability and portfolio growth. Such an investor is willing and able to accept a moderate level of risk and return. Their investment objective will focus mainly on portfolio growth, with a view for greater diversification. The majority of their portfolio is primarily invested in an equal mixture of bonds and equities.
Moderately Adventurous	<b>Typically, a moderately adventurous investor is primarily focused on pursuing significant portfolio growth over a longer investment term, and is usually an experienced equity investor. Such investors can tolerate market downturns and volatility in exchange for the potential of achieving greater long-term growth. Any funds set aside for such an investment are unlikely to be needed for 10 years or more. Such investment portfolios have a greater exposure to a variety of asset classes and will primarily invest in UK and global equities.</b>
Adventurous	Typically, an adventurous investor is primarily focused on pursuing a substantial level of portfolio appreciation over the longer term. They are happy to tolerate significantly higher degrees of investment volatility and subsequent fluctuations in the value of their investments. Such an investor will have high return expectations and won't need the money from their investments for 15 years or more. Such portfolios will have exposure to various asset classes, although they will have a heavy investment bias towards global equities.

## Glossary of Terms

### Pensions

Term	Description
Annual Allowance	The maximum an individual can pay into all of their pension plans in any one tax year.
Beneficiary Drawdown	Allows a beneficiary to take withdrawals directly from a pension fund they have inherited, whilst leaving the remaining fund invested.
Crystallised Fund	That part of a pension fund from which benefits have been or are being taken.
Defined Benefit Pension	A type of occupational pension plan which provides guaranteed pension benefits on retirement that are predetermined by a formula based on the employee's earnings history, length of service and age.
Flexi-access Drawdown	Enables a lump sum and / or an income to be taken directly from a pension fund, whilst leaving the balance of the fund invested.
Guaranteed Annuity	A product that converts a pension fund into an income that is paid for the rest of the annuitant's life.
Guaranteed Minimum Pension (GMP)	The guaranteed minimum pension which a UK occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.
Indexation	Contributions automatically increase each year by a fixed percentage or in line with an index e.g. <i>National Average Earnings</i> or <i>Retail Price Index</i> .
Insistent Client	A client who wishes to take a different course of action from the one recommended by their adviser but still wants the adviser to facilitate the transaction against their advice.
Lifetime Allowance	The maximum value of benefits that can be taken from a registered pension scheme before a lifetime allowance charge is applied.
Money Purchase Pension	A pension that provides benefits based on the contributions made and the investment returns achieved.
Money Purchase Annual Allowance	A reduced <i>annual allowance</i> that applies to individuals who have flexibly accessed their pension benefits.
Pension Commencement Lump Sum	The tax-free lump sum that may be taken by the owner of a pension fund. Typically, the maximum is 25% of the total pension fund.
Pension Contribution Insurance Benefit	A type of insurance that ensures regular contributions will continue to be credited to a pension if the policy holder is unable to work due to sickness or injury.
State Earnings Related Pension (SERPS)	A UK Government pension arrangement which 'Contracted in' employees and their employers contributed to between 06/04/1978 and 05/04/2002 to accrue additional state pension benefits.
State Second Pension (S2P)	A UK Government pension arrangement which 'Contracted in' employees and their employers contributed to between 06/04/2002 and 05/04/2016 to accrue additional state pension benefits.
Uncrystallised Fund	That part of a pension fund from which no benefits have been taken.
Uncrystallised Fund Pension Lump Sum	A way to access a pension fund as a single or series of lump sum payments (part tax-free, part taxable)

### Defined Benefit Pensions

Term	Description
Accrual Rate	Part of the formula used to determine the benefits payable from a defined benefit pension scheme. It is typically expressed as a fraction e.g. 1/80th.
Cash Equivalent Transfer Value	The value of the benefits accrued within a defined benefit pension represented as a cash lump sum that is available for transfer to a money purchase pension plan.
Critical Yield	The estimated annual return the recommended money purchase pension needs to achieve so it can purchase an annuity providing the same level of income as the existing defined benefit pension.
Escalation Rate	The rate at which defined benefit pension benefits will increase by once in payment.
Guaranteed Minimum Pension (GMP)	The guaranteed minimum pension which a UK occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.
Insistent Client	A client who wishes to take a different course of action from the one recommended by their adviser but still wants the adviser to facilitate the transaction against their advice.
Revaluation Rate	The rate at which preserved defined benefit pension benefits will increase up to the Normal Retirement Age.

TVAS Report	A report that is generally used to compare the benefits available from a current defined benefit pension scheme and a proposed money purchase pension where it is proposed that a transfer value will be paid from the former into the latter.
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## Investment-related

Term	Description
Annual Management Charge (AMC)	The annual fee that is deducted from a fund to cover the costs of managing it. It is typically expressed as a percentage of the value of the fund.
Incidental Costs	This could cover such costs as performance fees and interest payments.
Ongoing Charges Fee (OCF)	This reflects the overall cost involved in running an investment and shows the drag on performance caused by operational expenses associated with a fund. It is essentially the percentage of your investment holdings that will disappear in costs every year.
Rebalancing	The act of adjusting an investment's holdings to maintain a target asset allocation.
Total Expense Ratio (TER)	Much like the OCF, it provides a more complete picture of the total annual costs involved in running an investment. Total costs may include various fees (purchase, redemption, auditing) and other expenses.
Transaction Charges	Transaction Charges are the costs relating to the running of an investment and include costs not paid directly by the investor but taken into account in the price of the unit or share. <b>There is currently a disparity in the way these charges are calculated, and care should be exercised in the use of these figures for any sort of comparison.</b>
Weighted Average Charge	The average investment charge of a portfolio given the relative weighting (allocation) of the underlying investment holdings.

## Product Information

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Please find below further information regarding the various products and solutions that I have referenced in this report.

### Small Self-administered Scheme (SSAS)

A SSAS is a small occupational pension scheme that is set up by the directors of a business that want more control over the investment decisions relating to their pensions and in particular, to use their pension plans to invest in the business. As such, each member of the SSAS is usually a trustee.

It is essentially an occupational pension scheme with fewer than 12 people established under trust for the benefit of the scheme members. A SSAS is run by its trustees who are typically the scheme members. The trustees must:

- Establish the SSAS.
- Register the scheme.
- Set up a scheme bank account.
- Carry out a range of administrative duties including investment selection, payment of benefits and appointment of advisers.

A SSAS also requires a Scheme Administrator whose role is to:

- Register the pension scheme with HM Revenue & Customs (HMRC).
- Report events relating to the scheme and the scheme administrator to HMRC.
- Make returns of information to HMRC.
- Provide all relevant information to the scheme members.

It is important that the Scheme Administrator is aware of their responsibilities and that they have the knowledge to fulfil this role. If they are not deemed "fit and proper" by HM Revenue & Customs then the scheme could be deregistered, and hence a professional Scheme Administrator is generally advisable.

Contributions from the company (and the members) are paid into the scheme bank account before they are invested at the trustees' discretion (subject to certain restrictions). It is important to note that the scheme assets are held in the name of the trustees – there are no individual pots for each member, although each member is deemed to hold a proportion of the scheme's assets.

One of the major benefits of a SSAS is that it can offer the employer increased flexibility on where the scheme's assets can be invested. This can include investing in assets that are not generally available for many other types of pension scheme to invest in. As an example, a SSAS is able to purchase the company's trading premises and lease these back to the company.

### Property Purchase via a SSAS

The funds in a SSAS can be used to acquire commercial property. This includes the sponsoring of employer's business premises, which can then be leased back to the employer at an open market rent. The advantages of holding commercial property within a SSAS include:

- If purchased from the employer it can inject valuable cash flow into the business.
- Tax relief is received on any contributions used to purchase the property.
- Business property can be acquired without direct capital expense to the business.

- Costs and payments are payable from the fund.
- The property is protected from creditors in the event of insolvency.
- No Inheritance Tax is payable in respect of the property.
- Growth in the value of the property when sold is free of Capital Gains Tax.
- Commercial rent, paid by tenants of the property, provides a regular income which is free from Income Tax.
- Rent payable is an allowable business expense if the premises are used for the member's own business.

A SSAS can borrow up to 50% of the net scheme assets to finance a property purchase. If property is purchased from a connected party, such as the sponsoring employer or members of the SSAS and their families, an independent valuation is required to prove that the transaction is taking place on "arm's length terms". This valuation should be carried out by a qualified surveyor.

A SSAS can also, subject to certain terms and conditions, lend money back to the company to improve efficiencies or help it grow. It can even be used to purchase the company's shares.

### Loans

A SSAS can make loans to the sponsoring employer provided five key criteria can be satisfied:

1. Maximum loan amount is 50% of the net value of the assets less any existing loans.
2. Maximum term of the loan is 5 years
3. Repayments must have capital and interest payments throughout the term of the loan and be paid either monthly or quarterly.
4. HMRC rules state that the interest rate must be 1% above the average high street bank base rate. The loan interest, which is allowable as a business expense for tax purposes, is paid back into the scheme
5. Loans should generally be secured against a first charge on commercial property or, in certain cases, residential property (where a charge over proceeds of the sale rather than the asset prevents a taxable property charge).

Loans to members, or persons connected with members, are not permitted.

If a SSAS loan reaches the end of its term and is still outstanding then the loan may be extended. This is called a *rollover*.

### Purchasing the Company's Shares

Up to 5% of the SSAS scheme assets can be invested in the shares of the sponsoring employer. An additional 5% can be invested in related employer companies — up to an overall maximum of 20%. Care should be taken when investing in shares of the sponsoring employer. Individual approval will be necessary to ensure that the SSAS does not acquire an interest in assets, such as office equipment or company vehicles, which would result in a tax charge

A SSAS can also borrow money, subject to terms and conditions, for investment purposes. For example, the SSAS may raise a mortgage to assist with the purchase of the company's premises by the scheme and



the mortgage repayments may then be covered, in all or in part, by the rental income that the company pays the SSAS.

#### Drawing Benefits from a SSAS

When the time comes to draw benefits, a member can receive a tax-free lump from their share of the scheme's assets with the balance used to provide a pension income. This can be paid directly from the SSAS or via a range of retirement income solutions.

#### Death Benefits

In the event of the death of one of the members, the SSAS will be able to continue intact. It would not be necessary to sell any of the assets because the beneficiaries can opt to take the benefit as flexi-access drawdown. This would mean that the funds can remain invested within the scheme. If no income is needed it can continue to grow within the scheme until it is needed or until it is passed to another beneficiary on second death.

## Technical Information – Pensions

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### Contributions

- Tax relief on personal gross contributions is restricted to the higher of £3,600 or 100% of relevant UK earnings each pension input period and is capped at an annual allowance of £40,000 (unused allowances can be carried forward from the previous three tax years).
- Technically there is no limit on employer contributions. However, they will only receive corporation tax relief at the discretion of the local Inspector of Taxes.
- Contributions, including those paid by an employer or third party on behalf of the individual, are tested against the individual's annual allowance. Contributions in excess of their available annual allowance will be subject to a tax charge at their marginal rate of income tax.
- If an individual takes benefits from their pension fund in the form of an income via *flexi-access drawdown*, an *uncrystallised pension lump sum*, or a flexible income via an annuity then their annual allowance is reduced to £4,000. This is known as the *Money Purchase Annual Allowance* (MPAA).
- Individuals with *adjusted yearly incomes* (this is in effect an individual's total income and includes, amongst other things, their pension contributions but minus certain allowances) of more than £150,000 will have their annual allowance reduced by £1 for every £2 of excess income. The maximum reduction is £30,000 for individuals with *adjusted yearly incomes* of at least £210,000, which results in an annual allowance of £10,000.

Personal contributions to a registered pension scheme receive basic rate tax relief at source. This means for every £80 paid in, the pension fund will receive an additional £20 in tax relief. Higher and additional taxpayers can claim further tax relief through their tax return. No tax relief can be claimed on contributions paid after age 75. However, contributions will continue to benefit from tax-advantaged growth whilst they remain invested in an approved pension scheme.

### Retirement ages

The earliest age benefits can be drawn from a pension fund is normally 55. However, benefits may be able to be taken before then if the individual is retiring because of ill-health. There is no maximum retirement age. The minimum retirement age is set to rise to 57 from 2028.

### Pension benefits

Benefits can be taken from a pension fund via any combination of the following options:

1. Variable ad-hoc withdrawals known as *flexi-access drawdown*.
2. A single or series of lump sum cash payments known as *uncrystallised fund pension lump sum*.
3. A regular income known as an annuity.
4. A scheme pension.

Benefits are subject to income tax and taxed through PAYE.

### Tax-free lump sum

25% of an *uncrystallised money purchase pension fund* can typically be taken as a tax-free lump sum (*Pension Commencement Lump Sum*), although higher amounts are available for some pension plans established prior to 6 April 2006. Withdrawals in excess of the tax-free entitlement are taxed at the individual's marginal rate of income tax.

## Death benefits

The money purchase pension fund (up to the *lifetime allowance*) of an individual who dies before age 75 can be passed on to any nominated beneficiary free of taxation either as a lump sum or income, irrespective of whether the fund has been *crystallised*, provided payment is made within two years of the scheme administrator being notified of the death of the individual.

If the individual dies on or after their 75th birthday, or they die before age 75 but the funds are not paid out to beneficiaries, then beneficiaries will pay tax at their marginal rate of income tax on both lump sum and income withdrawals. The original beneficiary can also nominate future beneficiaries who can also access the fund as a one-off lump sum or by continuation of income. There are no limits on the age of any beneficiary, so a grandparent may skip generations to leave pension benefits to grandchildren, for example. If the death of the original beneficiary occurs post age 75, the subsequent beneficiary would also pay tax on withdrawals at their marginal rate.

## Lifetime allowance

The lifetime allowance is currently £1,030,000. This is the maximum value of benefits that can be taken from a registered pension scheme before tax charges are applied. Testing of the lifetime allowance is carried out whenever a *benefit crystallisation event* occurs, and a charge is applied to any benefits over the lifetime allowance unless protection has been granted. This charge is currently 25% (in addition to income tax at the individual's marginal rate) if the excess benefits are taken as income, or 55% if they are taken as a lump sum.

The lifetime allowance has been gradually reduced over time and the government has offered transitional protection to help protect individuals with existing large pension pots from a large tax charge. This has resulted in several transitional protection regimes all with their own rules.

## State Pension age

The State Pension age has historically been 60 for women and 65 for men. By November 2018 the State Pension age will have increased to 65 for all women. It will subsequently rise to 66 by October 2020 for both men and women. Further increases are planned. In all likelihood, it will then rise to 67 between 2026 and 2028, and to 68 between 2037 and 2039.

## New State Pension

The new State Pension was launched on 6 April 2016 to replace the basic State Pension and State Second Pension. It pays a maximum of £164.34 a week (assuming 35 years of full rate national insurance contributions). The change will impact women born on or after 6th April 1953 and men born on or after 6th April 1951.

## Technical Information - Defined Benefit Pension

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### What is a defined benefit pension?

A defined benefit pension is a type of occupational pension scheme that can provide a guaranteed lump sum and/or a guaranteed pension which is predetermined by a formula based on:

- The scheme benefit level (referred to as accumulation or accrual rate e.g. 1/60th, 1/80th), multiplied by
- the number of years of scheme membership, and
- a definition of “*pensionable salary*” or “*final salary*” (which may only be based on a proportion of the employee’s wages or salary).

The employer contributes to the scheme and is responsible for ensuring there is enough money within the scheme at all times to provide these benefits. The benefits provided are usually very valuable as they provide a guaranteed income in retirement, which will typically increase each year. Moreover when the member dies, a pension will also usually continue to be paid to their spouse, civil partner or dependant.

If a member leaves a defined benefit pension scheme before the scheme’s *normal retirement age*, their benefits are preserved within the scheme and will usually automatically increase to retirement to offset the effects of inflation.

Defined benefit pension schemes are sometimes referred to as “final salary” pension schemes (although not all defined benefit schemes are based on a member’s final salary).

Defined benefit schemes are subject to stricter requirements than money purchase pension schemes. The scheme must undergo regular valuations and make contributions to the Pension Protection Fund (see below). These requirements are intended to ensure there are sufficient funds within the scheme to provide the pensions promised to its members.

### The Pension Protection Fund

Private sector defined benefit pension schemes in the UK are required to pay a levy each year and in return the Pension Protection Fund (PPF) provides a “safety net” for pension schemes when the sponsoring employer becomes insolvent and the scheme has insufficient funds to pay the pension benefits that have been promised in full.

The level of compensation paid by the PPF will depend on the individual’s circumstances, but it is **likely to be lower (in some cases significantly so) than the full benefits promised by the pension scheme**. The PPF has the right to amend the level of compensation payable and will only pay the compensation benefits if it has sufficient funds – it is not underwritten by the Government. You will find more information on the PPF website or by clicking on the link below.

<http://www.pensionprotectionfund.org.uk/Pages/Compensation.aspx>

**What are the main differences between a defined benefit and money purchase pension?**

	Defined Benefit (DB)	Money Purchase (MP)
<b>Philosophy</b>	<ul style="list-style-type: none"> <li>To provide members with the security of a known lifetime retirement income.</li> </ul>	<ul style="list-style-type: none"> <li>To help individuals accumulate a retirement savings pot.</li> </ul>
<b>Contributions</b>	<ul style="list-style-type: none"> <li>Typically, members and employers contribute a set percentage of the member's salary.</li> <li>Member and employer contributions are invested in a pension fund and used to pay the member's lifetime pension.</li> </ul>	<ul style="list-style-type: none"> <li>Typically, individuals and employers contribute a set percentage of the individual's salary.</li> <li>Contributions are invested in a pension fund set up in the individual's name.</li> </ul>
<b>Investment Decisions</b>	<ul style="list-style-type: none"> <li>Professionals manage all investments based on strict guidelines established to protect plan members.</li> <li>Employer shoulders all investment risk.</li> </ul>	<ul style="list-style-type: none"> <li>Individual decides how their money is invested, usually based on a range of available investment options.</li> <li>Individual takes on all the investment risk.</li> </ul>
<b>Income at Retirement</b>	<ul style="list-style-type: none"> <li>Pension income is pre-defined and based on a formula involving earnings and service.</li> <li>Income is fixed and guaranteed in retirement, and typically increases each year.</li> </ul>	<ul style="list-style-type: none"> <li>Future pension income cannot be predicted.</li> <li>Future pension income is not guaranteed and will depend on various factors such as contributions paid, investment returns, and interest rates.</li> <li>More options and greater flexibility as to when and how income is taken at retirement.</li> </ul>
<b>Tax-free Cash</b>	<ul style="list-style-type: none"> <li>Tax-free Cash is based on a set formula and must be taken at outset.</li> </ul>	<ul style="list-style-type: none"> <li>Typically up to 25% of the pension fund can be taken as tax-free cash.</li> <li>Greater flexibility over the timing and amount of tax-free cash payments.</li> <li>May provide a higher tax-free lump sum.</li> </ul>
<b>Death Benefits</b>	<ul style="list-style-type: none"> <li>Death benefits can take the form of lump sum payment (includes refund of contributions on death where relevant) and/or a dependant's scheme pension.</li> <li>Not possible to pass pension fund to future generations. Any dependant's pension must end on dependant's death at the latest.</li> </ul>	<ul style="list-style-type: none"> <li>More options and greater flexibility than DB schemes which may be beneficial for individuals in certain circumstances.</li> <li>Death benefits can be taken as a lump sum, dependant or nominee flexi-access drawdown, or an annuity.</li> <li>Benefits can be passed down to future generations.</li> </ul>

Comparing the benefits provided by a defined benefit pension with those that could be provided following a transfer to a money purchase pension plan is not straightforward. As demonstrated above the two plans offer very different benefit structures and as such all the features and options available between them need to be considered carefully. Any potential advantages of transferring from a defined benefit pension scheme to a money purchase pension plan are often outweighed by the costs, risks and loss of benefits involved.